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To My Partners:

The performance of our portfolio for the second quarter of 2022 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2022:			
Q2	-15.29%	-15.61%	-16.10%
Year-to-Date	-23.76%	-24.33%	-19.96%
Since Inception (08/01/15):			
Annualized	12.28%	10.60%	10.96%
Cumulative	122.68%	100.69%	105.18%

It has been rough sledding in the equity market lately. The S&P 500's poor performance during the second quarter capped off its biggest decline for the first half of a year in more than five decades. The technology-focused NASDAQ did even worse. The NASDAQ's -29.2% total return is its largest-ever decline for the first half of a year. The same concerns that weighed on equities during the first quarter either persisted or intensified during the second quarter.

Most notably, the prospects for the Fed reining in inflation while delivering a soft landing for the economy dimmed. The Consumer Price Index for May, which was released on June 10th, came in higher-than-expected, dashing hopes for signs that inflationary pressures were beginning to ease. Expectations for the path of the federal funds rate, the primary rate through which the Fed implements monetary policy, lurched higher in the wake of that report. The market went from pricing in 50 basis point increases to the targeted range for the federal funds rate at each of the Fed's meetings in June and July to pricing in 75 basis point increases at both of those meetings, a considerably more hawkish tack. The expected peak for the federal funds rate for the current hiking cycle also moved higher. Changes in the yield on the 2-year treasury provide the most accessible illustration of these changes in market expectations for monetary policy. The yield on the 2-year treasury surged from 2.66% on June 1st to 3.45% on June 14th, just a few days after the release of the CPI figures for May. The tighter the Fed ratchets monetary policy to bring inflation to heel, the more likely it is that the U.S. will end up in a recession.

The fallout from Russia's barbaric invasion of Ukraine continued to undermine equity market sentiment as well. Much of Europe appears headed for a recession due to higher food, energy, and other commodity prices; lower trade and investment volumes; and weaker sentiment and financial market conditions as a result of the war. A recession in Europe will incrementally weigh on economic activity in the U.S. and directly impact most multinational companies.

Although the odds of a recession in the U.S. have gone up over the past several months and are higher than normal, a recession is not yet inevitable. Pandemic-related distortions of demand and disruptions of supply have been some of the most meaningful contributors to the inflation we are currently experiencing. Many of those distortions and disruptions are now clearly in the process of normalizing. That may begin to put downward pressure on inflation in the near future. Moreover, inflation expectations, which act like a form of gravity for realized inflation over time, also appear to remain well anchored at the Fed's long-term target.

Economic growth in the U.S. is unquestionably slowing and should continue to do so over the course of this year, but it is too early to say a recession is a foregone conclusion.

Our portfolio slightly outperformed the S&P 500 on a mark-to-market basis during the quarter. Covetrus, Inc. common stock (NASDAQ: CVET) spiked after Covetrus announced an agreement to sell itself for $21.00 per share, a 25% premium to where it began the quarter. While the announcement of the transaction helped our mark-to-market performance for the quarter, the transaction is nothing to celebrate. More on that later in the letter. All of our other significant positions detracted from our mark-to-market performance during the quarter, an unsurprising outcome in light of the broad-based decline in the overall equity market during the quarter.

Performance Attribution

Positions that had a material impact on the portfolio's mark-to-market performance for the quarter and year-to-date are outlined below.

Performance Attribution			
2Q 2022		YTD 2022	
Covetrus	3.30%	Covetrus	0.55%
Amazon.com	-2.27%	Amazon.com	-1.69%
Netflix	-3.17%	Netflix	-2.89%
Uber	-4.26%	Uber	-5.28%
Interactive Brokers Group	-4.44%	Alphabet	-5.49%
Alphabet	-5.24%	Interactive Brokers Group	-8.95%
Other	0.79%	Other	-0.01%
Gross Performance	-15.29%	Gross Performance	-23.76%

Portfolio Composition

The composition of the portfolio at the end of the quarter is depicted below.

Portfolio Composition	
Equities – Long	95.3%
Cash	4.7%

During the quarter, we exited our position in CVET and added to our positions in Amazon.com, Inc. common stock (NASDAQ: AMZN), Netflix, Inc. common stock (NASDAQ: NFLX), and Uber Technologies, Inc. common stock (NYSE: UBER). At the end of the quarter, our portfolio included seven long equity positions and cash.

Select Portfolio Updates

The lone portfolio update for this quarter covers our position in Covetrus, Inc. common stock (NASDAQ: CVET), a position we exited during the quarter after holding it for approximately three years.

The hurdle rate for Hinde Group's investments is a 15% annualized return. Investments that exceed that threshold when all is said and done are successful, and those that fall below are not. Our investment in CVET was an unsuccessful one. Over our three year holding period, it delivered a -4.1% annualized return and a multiple of invested capital of 0.92x. We built the position in several tranches over our three-year holding period, and the aforementioned figures reflect the combined result of those tranches. In other words, some tranches had worse results and some had better ones.

We do not need every investment to be successful for the overall portfolio to deliver exceptional results. We only need to limit unsuccessful investments in number and magnitude. Hinde Group's investment process is designed to target a 90% success rate over time and to ensure unsuccessful investments are not disasters. Even if everything is working exactly as planned, 1 in 10 of our investments will fall short of our 15% hurdle rate when all is said and done.

At the same time, just because we expect to have some unsuccessful investments does not mean that we should just brush them off when they occur. One of Hinde Group's principles is *Own the Outcome*. Putting that principle into practice means recognizing unsuccessful investments when they occur, critically examining what mistakes may have been made, and learning whatever we can from the experience.

Covetrus, Inc.
(NASDAQ: CVET)

Covetrus is a global animal health technology and services company. It was created in early 2019 through the merger of Henry Schein Animal Health, one of the leading distributors of medications, supplies and equipment to veterinary practices, and Vets First Choice, an innovative, animal health-focused prescription management platform that is still in the early stages of adoption by veterinary clinics.

On May 25th, Covetrus entered into an agreement with Clayton, Dubilier & Rice ("CD&R"), a private equity firm that has had a stake in – and representation on the board of – Covetrus since its formation, and TPG, another private equity firm, to sell itself to those firms for $21.00 per share in cash. Covetrus's board will seek shareholder approval of the transaction through a vote later this year.

To say that I am disappointed by the Covetrus board's decision to sell the company for $21.00 per share would be a grievous understatement.

Even a superficial glance at CVET's trading history should raise questions about the adequacy of $21.00 per share. While it does represent a modest 25% premium to where CVET was trading at the beginning of the second quarter – in the midst of broad and acute stress in the equity market – it represents only i) a 5.2% premium relative to where CVET began the year, ii) an 18.8% *discount* to CVET's average closing price for last year, and iii) a **48.5%** *discount* to the $40.78 high CVET hit in 2021. Selling the company at such a massive discount to where the market valued the stock hardly more than a year ago could only be justified if the business had become impaired in some way. No such thing has happened.

In fact, disclosures related to the proposed transaction reveal that management sees a bright future. A presentation that Goldman Sachs gave to Covetrus's board on May 23, 2022 shows that management expects Covetrus's revenue and Adjusted EBITDA to grow at annualized rates of 8.2% and 17.2% through 2025, leaving both metrics well ahead of sell-side estimates. Management's projections are also ahead of Hinde Group's base case forecast for the company and meaningfully ahead of the more conservative forecast Hinde Group used to underwrite the investment.

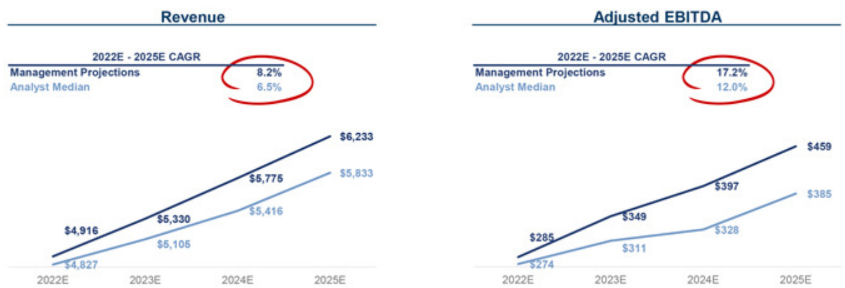
Exhibit 1: Summary of Covetrus Management Projections vs. Consensus Estimates

Goldman Sachs

Comparison of Management Forecast Vs. Street

($ in millions)

INVESTMENT BANKING DIVISION



Growth (%)				
Mgmt. Projections	7.5%	8.4%	8.4%	7.9%
Analyst Median	5.5%	5.8%	6.1%	7.7%
# of Analysts	6	6	5	3

Margin (%)				
Mgmt. Projections	5.8%	6.6%	6.9%	7.4%
Analyst Median	5.7%	6.1%	6.1%	6.6%
# of Analysts	6	6	5	3

Management Projections — Analyst Median

Source: Management Projections, Wall Street research

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(Source: Covetrus Board Discussion Materials dated May 23, 2022 prepared by Goldman Sachs)

These projections not only show that management is optimistic about Covetrus's prospects, but also that it did a poor job of communicating the potential of – and outlook for – the company to Wall Street. Say what you will about sell-side analysts, but their estimates do influence where a stock trades in the market. The market price of CVET would have been higher if sell-side estimates were better aligned with management's view on the likely trajectories for Covetrus's revenue and Adjusted EBITDA over the coming years. The purported "premium" that CD&R and TPG are offering looks bad enough when compared to where CVET traded as recently as early 2021, but it looks even worse when you consider that those stock prices were hit in part based on consensus estimates that the company should handily exceed.

More fundamentally, the very concept that there is a mutually beneficial deal to be done between minority shareholders and CD&R is questionable. CD&R was an investor in Vets First Choice and gained its stake in Covetrus when Vets First Choice and Henry Schein's animal health business merged in early 2019. CD&R has been highly involved with – and had significant influence over – Covetrus since the company was formed. Any value that CD&R brings to the table either has already been added or would be added under the current ownership structure. In other words, this is a single issue, zero sum game between CD&R and minority shareholders. The excess returns CD&R expects to realize are coming out of the pockets of minority shareholders. Moreover, CD&R as a long-time insider has far better information about the company than minority shareholders do. Given the circumstances, a loyal and effective board should only consider an acquisition offer from an insider like CD&R at an eye-watering price. Clearly, that is not the situation here.

Nothing that has come to light over the past 18 months or since the company announced the proposed transaction changes my view that CVET is worth more than the $40.78 high it hit in 2021 and a multiple of the $21.00 CD&R and TPG are offering. The stock's poor performance over the course of 2021 and through the first several months of 2022 mainly comes down to unfavorable market sentiment toward perceived "pandemic winners" and deteriorating overall conditions in the equity market more recently. Neither of those are justifiable reasons to sell the company to an insider for a depressed price.

Covetrus's board of directors has utterly failed shareholders in this situation. The idea that you should never attribute to malice that which is adequately explained by stupidity is generally good advice. But I struggle to attribute the board's failure mostly – much less entirely – to incompetence. Covetrus's directors have put their own interests ahead of their fiduciary duty to the company's shareholders. Unfortunately, I can only speculate as to exactly why that is the case.

We exited our position shortly after the announcement of the transaction. The announcement lifted CVET to not far below the $21.00 per share offer. I considered the possibility that a strategic buyer would emerge with a superior offer, but determined the expected value of that possibility was not sufficient to justify continuing to hold onto the stock. That was especially true because the offer came during a period of stress in the equity market when there were ample opportunities to reallocate the capital to other investments on attractive terms. The expected returns for our overall portfolio fortunately did not change that much. The expected returns of the positions to which capital was reallocated were comparable to what CVET would have offered at the price we sold it if it were to have remained a publicly-traded company.

Certain risks that I was aware of at the time I made the investment in CVET had a negative impact on the business. The integration of Vets First Choice and Henry Schein's animal health business proved more challenging and disruptive than the initial management team had expected. Challenges integrating the two companies prevented Covetrus from realizing synergies as quickly as planned. The founder of Vets First Choice who was initially the CEO of Covetrus ultimately proved unequal to the task of combining and leading the two companies. None of these things turned out the way I would have liked, but I was well aware that they were risks at the time I made the investment. Whether I appropriately estimated the magnitude and likelihood of their potential impact on the business is harder to say. It is not obvious to me that I made a mistake in assessing those risks though. Just prior to the announcement of the proposed transaction, the impact of those adverse developments was largely in the rearview mirror and I continued to be confident that our investment in CVET would ultimately be a successful one.

I do feel I made a mistake in evaluating the quality of Covetrus's corporate governance though. I was clearly aware of CD&R's stake in – and influence over – the company at the time I made the investment. I viewed it as a double-edge sword, but a net positive overall. I felt CD&R had the motivation and influence to put the best possible management team in place, align that team's interests with those of shareholders and hold that team accountable for delivering results. Those are all great things and far from given among publicly traded companies. At the same time, there was also the potential for conflicts of interest between CD&R and minority shareholders to arise and for CD&R to use its influence over the board to favor itself. I had no illusions about private equity firms in general being anything other than self-interested and ruthless, but expected the rest of Covetrus's board would take their fiduciary duty to minority shareholders seriously and keep CD&R honest. That assessment has proved to be wrong. I am shocked by how poorly Covetrus's board has represented the interests of minority shareholders vis-à-vis CD&R.

While you need to be cautious about trying to distill universal principles from a single experience, I think there is at least one lesson from our unsuccessful investment in CVET that I can articulate. Going forward, I need to be even more cautious about the corporate governance implications of a private equity firm having influence over a company.

Although I do not believe a recession in the U.S. is imminent or even inevitable over the intermediate term, our portfolio is well positioned to deliver attractive long-term returns even if one were to occur. The equity market is never discerning during a period of stress. As disconcerting as the unfavorable mark-to-market performance during such periods may be, periods of stress tend to benefit our portfolio's performance over the long-term through the opportunities they create. I am entirely focused on ensuring the same proves true of the current period of equity market stress.

I remain enthusiastic about the positions that comprise our portfolio and optimistic about the performance they will deliver in the coming quarters and years. Thank you for your continued confidence and support.

Regards,

Marc Werres
Managing Partner

Important Disclosures

The performance figures depicted herein relate to 1578 Partners, LP. This account serves as the model account for the taxable accounts Hinde Group manages. The performance of investor partner accounts may differ from the figures depicted herein for several reasons, including, but not limited to, cost basis differentials, the timing of account inflows, and tax considerations. 1578 Partners, LP's gross results reflect the deduction of trading commissions and other fees charged by Hinde Group's broker. Net results reflect the hypothetical deduction of management fees (1.5% of AUM per annum billed quarterly in advance).

1578 Partners, LP's inception date is August 1, 2015.

The statistical data regarding the performance of the S&P 500 was obtained from the website of S&P Dow Jones Indices. The S&P 500 returns shown do not represent the results of actual trading of investible assets/securities.

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